CONNECTICUT PRESERVATION ACTION

The preservation community's unified voice at the State Capitol since 1980

Written Testimony of Connecticut Preservation Action
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HB 5431, INCREASING THE AGGREGATE AMOUNT OF TAX CREDITS FOR THE REHABILITATION OF HISTORIC STRUCTURES.
Finance Committee - Public Hearing

March 16, 2018

Connecticut Preservation Action (CPA) supports this bill to raise the cap for reservations on tax credits for historic structures. CPA is the statewide umbrella organization of for-profit and non-profit businesses, agencies, and individuals. We help coordinate a common public policy agenda promoting historic preservation as environmentally and economically sustainable development that invests in communities, creates local jobs, and preserves local, cultural identity. Members are testifying today.

First and foremost, despite its name, this tax credit program is **not a handout**. It is not even only about giving away money, strengthening residents' connection to place, or simply about encouraging people to care about historic properties. **It is *also* a proven incentive for investment that more than pays back the money put out by raising property values and creating economic activity with resources that already integrated into the local community**, through both physical and psychological infrastructure. The Connecticut Historic Rehabilitation Tax Credit Program, refined in 2014, establishes a 25% tax credit on the Qualified Rehabilitation Expenditures associated with the rehabilitation of a Certified Historic Structure for either 1) residential use of five units or more, 2) mixed residential and nonresidential use or 3) nonresidential use consistent with the historic character of such property or the district in which such property is located. An additional credit is available for projects that include affordable housing as provided in section 8-39a of the general statutes.

In 2011, the Connecticut Trust for Historic Preservation commissioned a study evaluating the success of federal and state historic preservation tax credits. Economist Donovan Rympeka's study (http://www.placeeconomics.com/wp-content/uploads/2016/08/rypkema_ct_economic_impact_study_6-2011.pdf) found that, historic preservation is a safe and important tool in economic development and investment. Historic preservation tax credits help save the past by maintaining functioning, desirable communities and housing stock, define long-term homes for workers, and thus encourage companies to locate here. Among other economic metrics, historic preservation creates local jobs for Connecticut residents of every socioeconomic background. Historic rehabilitation projects are labor intensive and require local materials and specialized skills. Far more than new construction, wages, profits, and salaries stay local, and thus historic preservation projects create more jobs than new construction or steel manufacturing.

Tax credits leverage private investment and federal funding. Sometimes combined with the Federal Historic Preservation tax credit, our state tax credit encourages investment in <u>long-term</u> capital assets with both immediate and ongoing benefit to the state, municipalities and the citizens of Connecticut. According to Rympeka, **every $100 invested in the rehabilitation of a historic building, $83 ends up in the pockets of Connecticut workers. This tax credit encourages developers to RECYCLE buildings, which also contributes to substantial savings in energy and solid waste disposal costs.** See the newest numbers at the national level: **https://www.nps.gov/tps/tax-incentives/taxdocs/tax-incentives-2017annual.pdf.**

This bill to increase the cap is offering the legislature an opportunity to lure more private investment and real estate development at a unique moment in time. The Federal Historic Preservation Tax Credit received bipartisan support and was re-instated into the final tax reform bill this past year due to its demonstrated success. Uncertainty on the timing and details of the federal program is stalling development projects that use these credits. We want Connecticut to be there not only for local developers, but those out of state as well.

In New Britain, *Jasko Development* has purchased five historic buildings. In Fall 2017, owner Avner Krohn completed the conversion of the upper floors of **99 West Main Street**, a 1925 office building that many believed to be an eyesore to be torn down for a parking lot. The new space included **16 one- and two-bedroom luxury apartments with of above-market rents** ranging from $1,075 to $1,500 a month. The *Jasko* team used more than $**400,000 in state historic tax credits** to complete the project. These credits are a small, but vital part of the financing to make projects like this work, and they would simply not be possible without the credit. **The assessed value on this property has more than doubled, adding over $30,000 a year to the city's coffers** (once tax abatement matures). But Jasko is not the only developer with faith in New Britain. Back in 2011, a developer used 3.8 million dollars in federal and state tax credits (33% of the project) to build 18 mutual housing apartments in the upper floors of a **1920s-era bank located next to town hall and standing vacant for 15 years. It is now 100% occupied. The Anvil Building's assessment has risen from under $300,000 to over 1.5 million. The project was only feasible with tax credits**. Designated as a National Register Historic District in 2016, all of downtown New Britain (over 100 properties) is eligible for state and federal preservation tax credits. **This is a key tool in the city's efforts to revitalize a once thriving commercial downtown New Britain with transit –oriented development,**

improved way-finding signage (including heritage signage), and re-branding.

Private developers large and small, and their investors, need certainty for their financial models. Connecticut's credit works. Since July 1, 2014, the State Historic Preservation Office has received has accepted **130** new rehabilitation projects into the program, and has reserved over **$138,700,000 in tax credits** for **73 projects**. The 73 projects represent roughly **$530,371,284 in rehabilitation costs**. What this means is an over 4:1 ratio of outside investment in the state to the state's investment through this particular tax credit program. Each annual allocation usually provides credits for about 17 projects a year. Since the inception of the program, the cap for tax credit allocations has been met every year—in 2016, it was met in October. In order to keep development projects on track, the SHPO took reservations for *this* fiscal year of over $7.9 million dollars, oversubscribing this 2017-18 year by roughly 10 million as of March 1.

These historic preservation/restoration/ rehabilitation projects are a vital part of building an infrastructure for the state to support a vibrant and skilled workforce. **In the last three years, tax credit projects created 1970 housing units, and 1124 of these included affordable housing. In addition, these projects created or rehabilitated 246, 285 square feet of non-residential, commercial or manufacturing space. Applications have come from 28 different towns and cities across the state** including Hartford and Bridgeport, Waterbury alone New Haven, and New Britain. They seek support to renovate and reuse the historic buildings already here in our communities. **This is not place-making, rather it means place-*keeping* by using local history, and existing local resources, to build communities for our future.**

In these financially uncertain times, Connecticut's historic tax credit development remains a **sound, attractive, long-term, and predictable development scenario**. The projects are rigorously reviewed in the planning stages, and thus there is minimal risk to the State for its investment. Developers commit to a project and invest in the state BEFORE the state provides the credit. **The credit is issued *only* once the, the building is renovated, and the work is properly done**.

In conclusion, the availability of Connecticut's historic tax credit is a critical self-help economic tool for our state. **With changes to the federal historic preservation tax credit in the new tax reform law, the availability of this gap funding in Connecticut provides our state with an advantage over that our other northeastern neighbors. But developers cannot plan projects here that invest in our resources if they are unsure about the availability of those tax credits**. You'll read it in the testimony they have submitted. That perception has already stalled several housing projects. **Raising the capwill encourage more projects to move forward with confidence.**

Thank you for your attention.